Manitoba

Annual Report 1986

The Public Utilities Board

To the Honourable Alvin Mackling, Q.C.,
Minister of Consumer and Corporate Affairs,
343 Legislative Building,
Winnipeg, Manitoba.
R3C 0V8

Sir:

Section 109(1) of The Public Utilities Board Act (CAP. P280, R.S.M. 1970) directs that the Manitoba Public Utilities Board

> "...shall, on or before the first day of March in each year, transmit to the Minister a report for the year ending the thirty-first day of December in the last preceding year..."

including therein summaries and statistics pertaining to all findings and activities of the Board.

Section 109(2) of The Public Utilities Board Act (CAP. P280, R.S.M. 1970) directs that the Report of the Board thus transmitted to the Minister

> "...shall be submitted to the Legislature if it then is in session and, if not, at the next session thereof."

Pursuant to the provisions of Section 109(1) of the Act, I am pleased to transmit to you as Minister under the Act, the Twenty-Seventh Annual Report of the Manitoba Public Utilities Board, pertaining to the year ending on the thirty-first day of December, 1986, on behalf of those Members named below who comprised the Board for the period covered by this Report.

The Board has now discharged its responsibilities in all particulars pursuant to Section 109(1) of The Public Utilities Board Act.

Respectfully transmitted, this 27th day of February, 1987.

Sincerely,

Murray Donnelly,
Chairman.

Oscar Tonn	- Vice-Chairman (Currently on Leave of Absence)
Rudy Schilling	- Member
Susan Proven	- Member
Ruth McNeill	- Member (Appointed as of November 5, 1986)
Joe Taylor	- Member (Appointed as of November 5, 1986)
G.O. Barron	- Secretary
Derek de Graff	- Associate Secretary

TABLE OF CONTENTS

INTRODUCTION PAGE NUMBER

Responsibilities of the Board 1

Board Personnel 2

Summary of Board Activities -

Board Meetings and Hearing Days 3

Orders Issued 4

NATURAL GAS DISTRIBUTION UTILITIES

General 5

Greater Winnipeg Gas Company 9

ICG Utilities (Manitoba) Ltd. 17

PROPANE GAS DISTRIBUTION UTILITY

Steelgas Utilities of Manitoba Ltd. 24

MANITOBA TELEPHONE SYSTEM 28

THE MANITOBA HYDRO ACT 35

THE MUNICIPAL ACT

Water and Sewer Utilities 37

THE HIGHWAYS PROTECTION ACT 39

THE PREARRANGED FUNERAL SERVICES ACT 40

THE CEMETERIES ACT 41

REVENUES OF THE PUBLIC UTILITIES BOARD 43

RESPONSIBILITIES

The Public Utilities Board (the Board) is an independent quasi-judicial body operating under the authority of the Manitoba Legislature.

The Board is responsible for the regulation of public utilities as defined under the Public Utilities Board Act in all matters and in such manner as set out in that legislation. Other enactments which assign regulatory or adjudicative responsibilities to the Board are:

The Greater Winnipeg Gas Distribution Act
The Gas Pipe Line Act
The Gas Storage and Allocation Act
The Prearranged Funeral Services Act
The Cemeteries Act
The Municipal Act (Local Utilities)
The Manitoba Water Services Board Act (Appeals)
The Highways Protection Act (Appeals)
The Manitoba Telephone Act
The Manitoba Hydro Act (Appeals, Reference)

The Board is also charged by Orders-in-Council relating to a Canada-Manitoba Agreement to adjudicate certain disputes arising between the Manitoba Telephone System and licensed Cable Television Operators.

BOARD PERSONNEL

At the date of this Report, the Board consists of Five (5) Members assisted by a Secretariat, as noted below:

Chairman of the Board	Mr. M. S. Donnelly
Vice-Chairman	Mr. O. Tonn (currently on leave of absence)
Member	Mr. R. Schilling
Member	Ms. S. Proven
Member	Ms. R. McNeill
Member	Mr. J. Taylor
Executive Secretary	Mr. G. O. Barron
Associate Secretary	Mr. D. C. de Graff

Professional, technical and expert assistance is regularly available to the Board, as authorized by statute and/or by Order-in-Council in respect of the appropriate statutory provisions in The Public Utilities Board Act. Such legal, engineering, accounting and other professional or technical staff support providing service to the Board is exclusively and wholly by statute under Board direction in respect of that service. These Advisors are employed on an "as needed" basis, are paid fees set by Order-in-Council on an "as utilized" basis, plus expenses, with such disbursements being recoverable to a large extent from the utilities regulated or applying to the Board for service or adjudication. The Board is empowered by The Public Utilities Board Act to secure such other assistance as it deems appropriate in the process of adjudication, with the related disbursements, if any, being charged directly to the parties as the Board may determine.

BOARD MEETINGS AND HEARINGS

A total of 51 Board Meetings and public hearings were held in 1986:

Board Meetings	23
Public Hearings Days	28

ORDERS ISSUED

During the year ending December 31, 1986, 158 Orders were issued, as follows:

Public Utilities	152
Highways Protection Act	6

Note: Copies of the decisions of The Public Utilities Board of Manitoba are available from the Board's Offices upon request.

Public Utilities Orders

Public Utilities Board Act	3
Water and Sewer Utilities	98
Gas Utilities	21
Manitoba Telephone System	28
Transit	1

Highways Protection Act Orders

Appeals	6

Miscellaneous

The City of Winnipeg Act	1

NATURAL GAS DISTRIBUTION UTILITIES

GENERAL

Agreement on Natural Gas Markets and Prices

In its 1985 report, the Board noted that an agreement had been reached between the Federal Government and the gas producing provinces of Alberta, British Columbia and Saskatchewan for the abolition of administered prices for natural gas. This agreement titled "Agreement on Natural Gas Markets and Prices" (the Agreement) became effective on November 1, 1985 and provided for, amongst other things, the following:

> "-direct sales at prices and terms freely negotiated between producers and distributors or large industrial users, provided transportation service is made available by consumer provinces' regulatory bodies;
> -competitive marketing programs under which distributors will be permitted to offer discounts to meet competition;
> -export floor prices based on regional price tests rather than a single Toronto price;
> -an NEB review of TCPL's services in light of the new pricing system to ensure equitable access to this system;
> -removal of volume restrictions on short-term natural gas exports;
> -a comprehensive review of the role and operations of interprovincial pipelines."

The Agreement fixed the Alberta Border Price at $2.79 per gigajoule (GJ) until November 1, 1986 following which time the cost of gas was to be market sensitive.

During the transition period from November 1, 1985 to October 31, 1986 and pursuant to the terms of the Agreement some large volume users of natural gas in Manitoba obtained discounts

from TransCanada PipeLines Limited (TCPL). These discounts were known as competitive market program discounts (CMP's). Others sought to purchase natural gas directly from producers and/or brokers. Details with respect to these matters will be dealt with under each gas utility heading.

Furthermore, the Manitoba gas utilities, like utilities in other provinces, conducted negotiations with Western Gas Marketing Limited (which is the marketing branch of TCPL), its traditional supplier of natural gas, to put in place a pricing agreement to replace the abolished administered Alberta Border Price. Such pricing agreements were entered into on October 23, 1986.

The Board held a generic hearing on October 6, 1986 to examine the manner in which consumers in Manitoba would be able, to the extent possible, to enter into direct purchases of natural gas with producers and/or brokers. The major part of the hearing dealt with the need for consumers to avail themselves of transportation services on the Manitoba gas distribution systems. Historically the gas distribution companies have provided both the gas procurement function and the transportation function for all consumers. Under deregulation direct purchasers would no longer require the distribution companies' gas procurement services and accordingly, would seek only to pay for the services they required to transport gas on the distribution system from the TCPL/gas utility connection to the customer's meter.

The Manitoba gas utilities argued that deregulation of natural gas pursuant to the Agreement meant only the deregulation of the price of natural gas paid to producers or brokers and that it was not intended to deregulate the gas distribution system to the extent being requested. The gas distribution companies argued that a "buy-sell arrangement" (*) would satisfy the intent of a direct sale and at the

same time avoid the complexities associated with transportation service. The consumer's saving would be realized between what the consumer pays to the producer and/or broker and the price paid to the consumer by the utility. The utility would pay their current cost of gas then being paid to their supplier. Transportation services and all of its associated complexities may lead to a shifting of distribution costs onto the core customers (**) who may be captive to the distribution system.

Others argued that transportation service was desirable because it provides consumers with a choice as to which transportation services are desired, i.e. load balancing, back-stop, etc.

After hearing all evidence, the Board determined that there was no necessity for transportation service at this time. In the Board's opinion not only does a "buy-sell arrangement" provide a reasonable alternative for direct purchasers but it also avoids any undue shifting of costs onto the utilities' core customers that might result.

The Board will be conducting a hearing in the near future relating to the criteria by which "buy-sell arrangements" will occur.

The Manitoba gas utilities in applications each dated December 17, 1986 applied to the Board for approval of rates to reflect the terms and conditions of the pricing agreements entered into with TCPL. General details with respect to each pricing agreement will be dealt with under each gas utility heading.

(*) "Buy-sell arrangement" is an arrangement whereby the consumer who purchases natural gas directly from a producer in Alberta and/or a broker in Manitoba or any other province would be required to resell ownership of the gas to the utility where it enters the distribution system.

(**) "Core customers" are residential and small commercial customers.

In a letter to the Board dated December 17, 1986, the Minsters of Energy & Mines and of Consumer & Corporate Affairs expressed concerns that the pricing Agreements entered into by the Manitoba gas utilities did not provide for the lowest price of natural gas for Manitoba consumers and accordingly the Minister of Consumer & Corporate Affairs requested that the Board, pursuant to Section 64 of The Public Utilities Board Act, convene public hearings:

> "to investigate all matters relating to the cost of gas supplied by Inter-City Gas Limited and the Greater Winnipeg Gas Company in their respective franchise areas, and more particularly:
>
> 1) to inquire whether such cost of gas exceeds the competitive market price of gas; and
>
> 2) whether the current regulatory, contractual, administrative and institutional arrangements concerning the supply of gas ensure that in future, gas will be provided to Manitoba consumers at competitive prices."

The Board scheduled a public hearing/inquiry into these matters commencing on February 9, 1987.

GREATER WINNIPEG GAS COMPANY

The Greater Winnipeg Gas Company (the Company) did not apply for an increase in rates in 1986, as a result of changes in its rate base for 1985. The Company's rate base was last examined for the year ending December 31, 1982. However, the Board reviewed the operating results of the Company for 1985 and determined that the Company earned on a weather normalized basis an overall rate of return of 13.38% which exceeded the 12.65% currently allowed by the Board. The Company earned a return on equity, after assigning the entire amount of unbilled revenue to equity, of 15.02% which is higher than the allowed return on equity of 14.25%. In Board Order No. 117/84, the Board assigned approximately 52% of the unbilled revenue to short-term debt and 48% to equity based on an assumed income tax liability relating to the unbilled revenue. Treating the 1985 actual unbilled revenue in this manner resulted in a return on equity of 18.1%.

The Board met with the Company's officials on November 20, 1986 to review their financial position in greater detail. The Company indicated that although they exceeded their allowed return in 1985, there are a number of cost increases in 1986, and if an application were filed it would indicate a revenue deficiency.

At the request of the Board the Company confirmed that a rate base and rate of return application will be filed in early 1987 at which time the full particulars of the Company's financial position will be reviewed.

As noted under the heading "General" the Board issued during the transition period for deregulation from November 1, 1985 to October 31, 1986 several Orders relating to natural gas discounts as provided by TCPL for large volume users pursuant to the Agreement on Natural Gas Markets and Prices. The customers receiving such discounts together with the amount are noted below:

Greater Winnipeg Gas Company	CMP Discount $/GJ	Expiry Date
Inland Cement Limited (formerly Genstar Cement Limited)	$0.70	October 31, 1986
Red River Community College	$0.35	October 31, 1986
Stony Mountain Penitentiary	$0.35	October 31, 1986
CFB Selkirk	$0.35	October 31, 1986
CFB Whytewold	$0.35	October 31, 1986
CNR Pandora	$0.35	October 31, 1986
CNR Symington	$0.35	October 31, 1986
Eatons Hargrave Street	$0.35	October 31, 1986
Health Science Centre	$0.35	October 31, 1986
Selkirk Mental Hospital	$0.35	October 31, 1986
St. Boniface Hospital	$0.35	October 31, 1986
University of Manitoba	$0.35	October 31, 1986
Pembina Mountain Clay	$0.35	October 31, 1986
Burns Packers	$0.35	October 31, 1986
Canada Packers	$0.35	October 31, 1986
Dominion Malting	$0.35	October 31, 1986
Domtar Construction	$0.35	October 31, 1986
Griffin Industries	$0.35	October 31, 1986
Manitoba Rolling Mills	$0.35	October 31, 1986
Manitoba Sugar Refinery	$0.35	October 31, 1986
Seagrams	$0.35	October 31, 1986
Westroc Industries	$0.35	October 31, 1986
John Labatt	$0.65	July 31, 1987
Canada Packers Incorporated	$0.45	October 31, 1986

Of the above listed companies, all took volumes at discounted prices with the exception of Manitoba Sugar Refinery. Manitoba Sugar Company began receiving its direct purchase gas on September 10th and continues todate, paying a transportation charge to the Company.

During the period when the CMP's were in force, a total 2.735.764 GJ of gas was delivered to specified companies accounting for a total discount of $1,479,432.

Also, during the transition period the Board issued two (2) interim ex parte orders approving transportation services on the Company's distribution system; one (1) for Inland Cement Limited and the other for Manitoba Sugar Company. In each case the Board, in approving the transportation service rate, assured itself that the costs to all other customers of the utility would not be affected.

The Inland Cement Limited transportation service rate of $0.52/GJ was never used. In the early stage of deregulation it was understood that a CMP discount for gas could not be obtained unless access to the transportation system by a direct sale was available to the consumer. It was later confirmed that the Agreement which provided for such discounts simply required an indication that a means for a direct sale to occur was available. Thereafter, individual transportation service rates were no longer required. Accordingly, for Inland Cement Limited to obtain a discount as noted in the above table the transportation rate was approved by the Board in Order No. 4/86 dated January 30, 1986.

Manitoba Sugar Company sought and received the Board's interim approval for transportation service which it intended to use and which expires on January 31, 1988. Order No. 116/86 dated June 27, 1986 addressed this matter. Manitoba Sugar Company arranged its own gas supply through a related producer company in Alberta and arranged to transport the gas to its plant. The price paid by the Manitoba Sugar Company for its natural gas was unknown and is treated by Manitoba Sugar Company as confidential. The transportation service rate approved by the Board equals $0.53/GJ.

As a result of the Board's order approving the use of "buy-sell arrangements"instead of transportation service, Manitoba Sugar Company and the Company were advised by the Board that arrangements should be undertaken to put in place a "buy-sell arrangement".

Also, as noted under the heading "General" the Company applied to the Board on December 17, 1986 for approval of rates flowing from their Pricing Agreement entered into with TCPL on October 23, 1986. The Pricing Agreement provided for the following:

1. The establishment of a base price of $2.79/GJ from November 1, 1986 to October 31, 1988.

2. The establishment of market funds as noted hereunder:

   (i) Customer Specific Discount Fund - provision for discounts to address the competitive market requirement of industrial customers including Inland Cement Limited and Manitoba Sugar Company. The value of the discount is to be determined by negotiation.

The Board noted that the Manitoba Sugar Company has purchased its gas directly and is no longer purchasing gas from the Company.

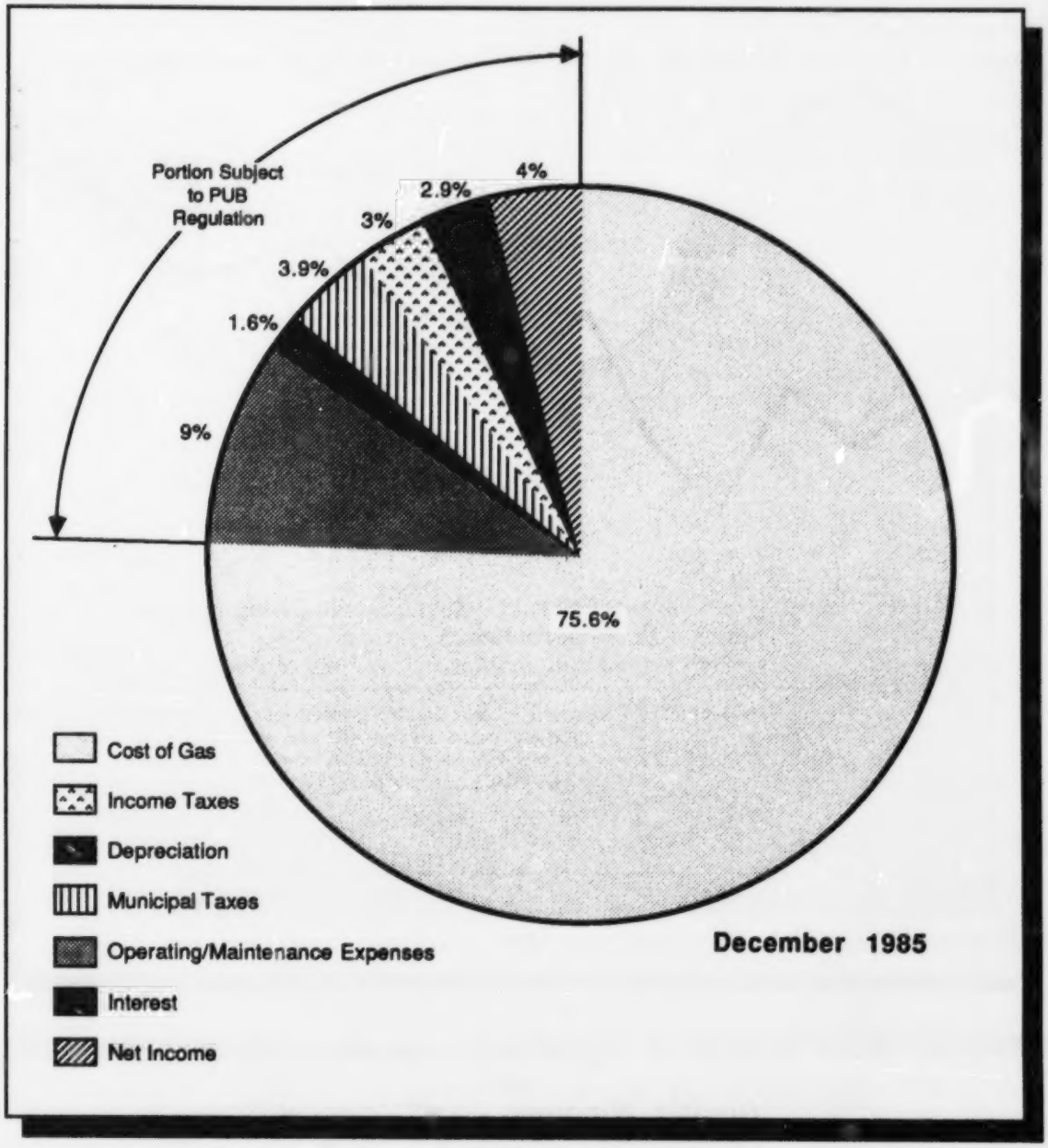
   (ii) Greater Winnipeg Market Discount Fund - for the purposes of the maintenance of CMP discounts and the further offering of discounts to address the competitive market requirements of specific industrial and commercial customers not eligible under the Customer Specific Discount Fund. The total amount of the discount was identified to be $6.6M in each of the two (2) years. The Company proposed a specific rate schedule which will dictate the amount of the discount in relation to the volumes of gas used by each eligible customer.

In addition to the above the Company was able to obtain a further discount from TCPL titled the Monthly Market Optimization Discount. This discount occurred because the Company's gas purchase contracts with TCPL were not at present being utilized at an optimum level. The Board understands that the Company will realize a saving of $1.5M a year and that this discount will result in a reduction of $0.03/GJ off the base price of $2.79/GJ for all customers.

As the administered Alberta Border Price was at $2.79/GJ prior to November 1, 1986, the maintenance of the base price, by this Pricing Agreement at $2.79/GJ as proposed results in the consumer rates for the "core customers" remaining unchanged for the term of the Agreement except for the discount under the Monthly Market Optimization Discount.

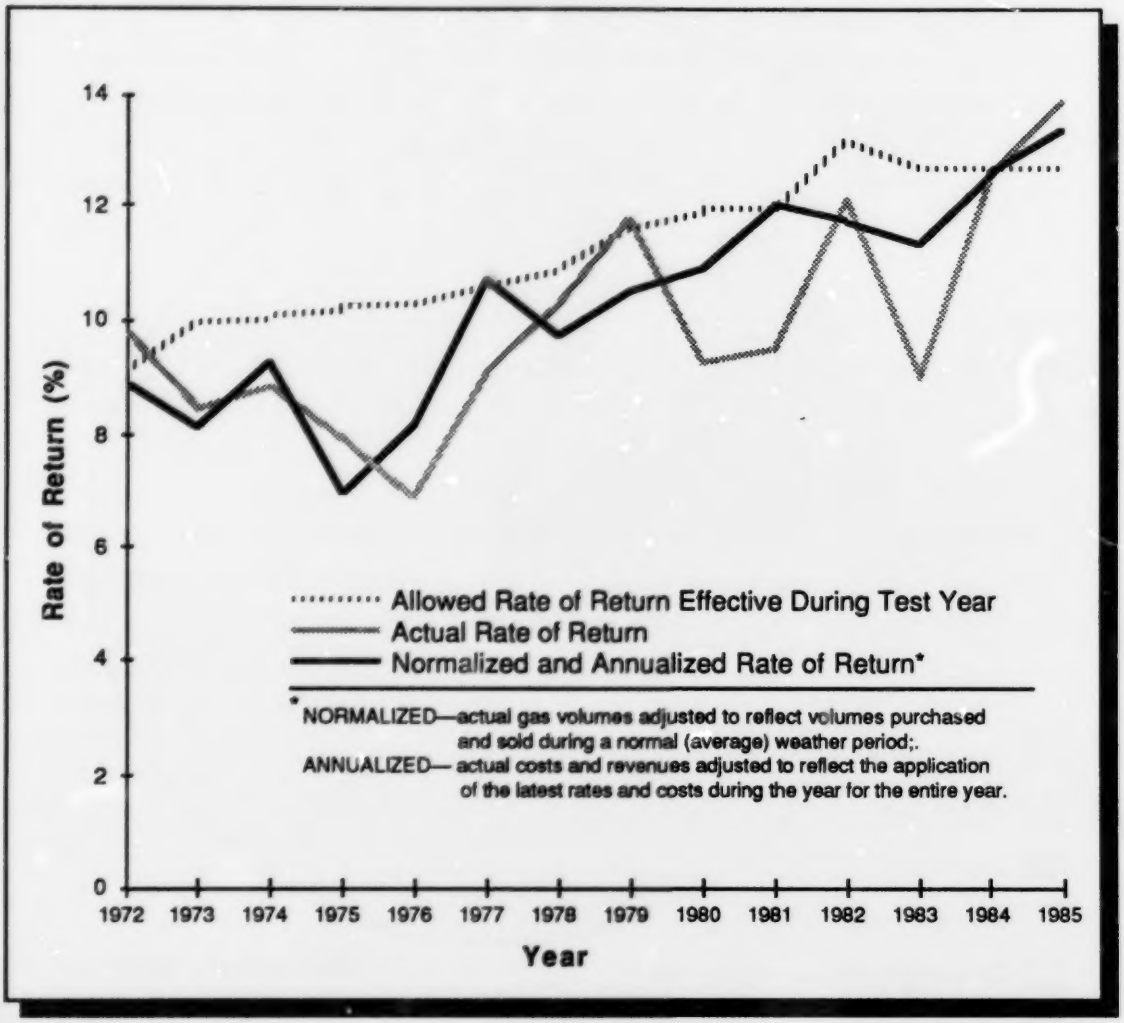
This matter together with the investigation requested by the Minister of Consumer and Corporate Affairs is the subject of a public hearing scheduled for February 9, 1987.

On November 21, 1986 the Board issued Order No. 154/86 authorizing the Greater Winnipeg Gas Company to issue $20,000,000 of debentures at 10-5/8%. The last long-term issue made by the Company was in 1983. The principal purpose for this issue is to replace short-term bank borrowings used for day-to-day operations which have accrued over time to the bank's maximum line of credit.



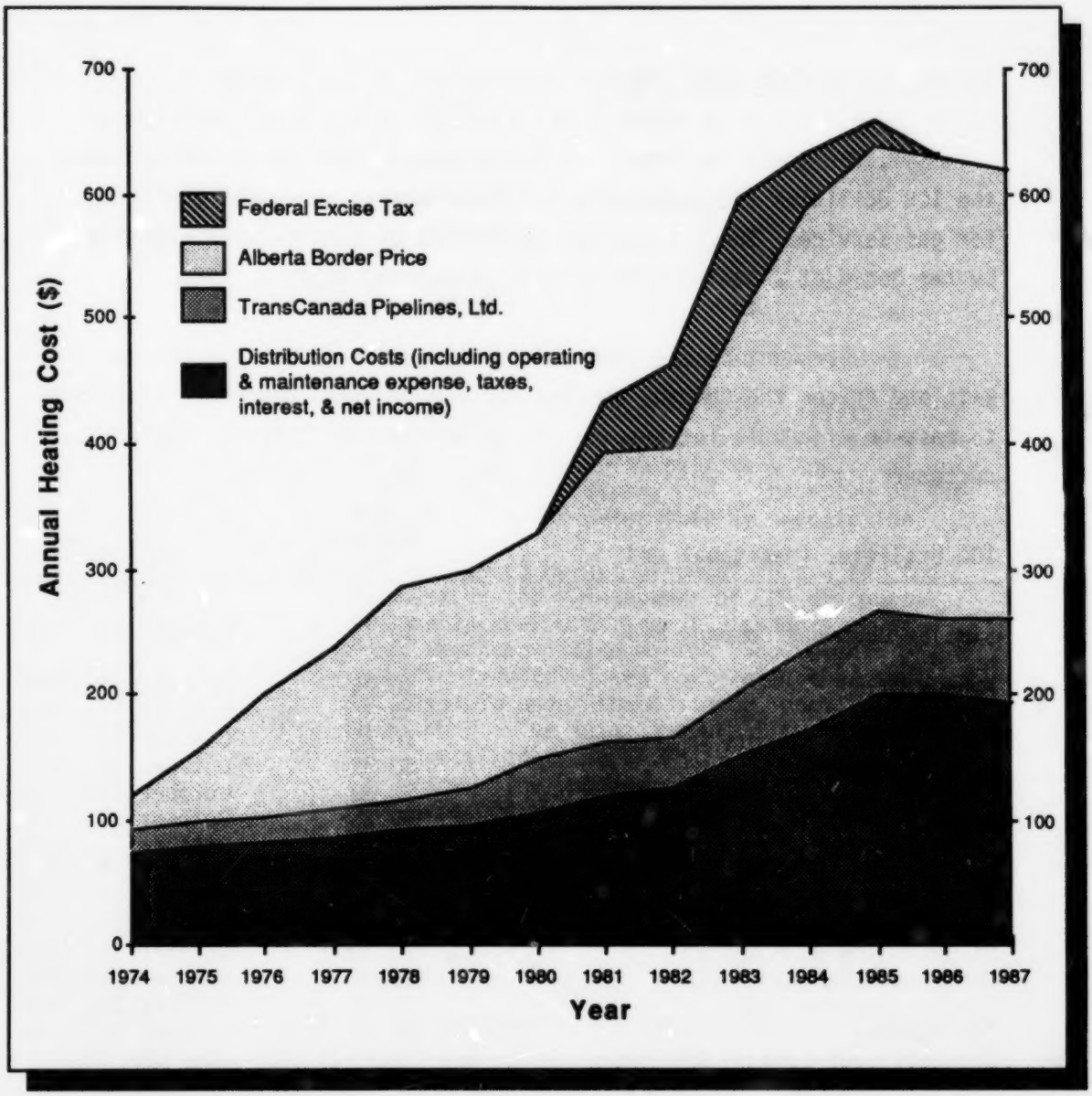
DISTRIBUTION OF GAS UTILITY REVENUE
ICG Utilities—Greater Winnipeg Gas Company

Cost of gas includes TransCanada Pipelines Limited transportation Tolls, Federal and Alberta government taxes, royalties, and gathering system and producer costs



RATE OF RETURN ON RATE BASE
for
Greater Winnipeg Gas Company

Note: Rate of return is the return earned or allowed to be earned by a utility calculated as a percentage of its Rate Base—i.e., investment in property, Plant and equipment



ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities Greater Winnipeg Gas Company

Based on usage of 119 Mcf/year, which represents only space heating. Hot water heating is not included. Due to conservation effects, space heating consumption has declined from 142 Mcf/year in 1975. At January 1, 1987 rates, 142 Mcf would cost $729.

ICG UTILITIES (MANITOBA) LTD.

On April 18, 1986, the Board issued Order No. 70/86 approving the ICG Utilities (Manitoba) Ltd.'s (the Company) terms and conditions for gas service. These terms and conditions of service were examined by the Board at a public hearing held in Brandon in June, 1985.

Pursuant to the terms of the Agreement on Natural Gas Markets and Prices the Company applied for and received the Board's approval to pass-on discounts for natural gas as provided by TCPL for the following customers:

ICG Utilities (Manitoba) Ltd.	CMP Discount $/GJ	Expiry Date
Simplot Chemical Company Ltd.	$0.70	October 31, 1986
Mohawk Oil	$0.35	October 31, 1986
CFB Shilo	$0.35	October 31, 1986
Campbell Soup Company Limited	$0.35	October 31, 1986
McCains Foods	$0.35	October 31, 1986
CSP Harrowby	$0.35	October 31, 1986
Brandon General Hospital	$0.35	October 31, 1986
Carnation Foods	$0.35	October 31, 1986
Bothwell Co-op Dairy	$0.35	October 31, 1986
Burns Meats Ltd. - Brandon	$0.35	October 31, 1986
Canadian Occidental Petroleum Ltd.-Brandon	$0.35	October 31, 1986
Dauphin General Hospital	$0.35	October 31, 1986
Manitoba Development - PLP	$0.35	October 31, 1986
Perth's Brandon Ltd.	$0.35	October 31, 1986
CFB Portage	$0.35	October 31, 1986
Campbell Soup Company Limited	$0.45	July 31, 1987

All the above listed companies received volumes of gas at the CMP discounts.

During the period when the CMP's were in force, a total of 2,032,391 GJ of gas was delivered, accounting for a total discount of $1,358,632.

As noted under the heading "General" the Company applied to the Board on December 17, 1986 for approval of rates flowing from their Pricing Agreement entered into with TCPL on October 23, 1986. The Pricing Agreement provided for the following:

1. the establishment of a base price of $2.79/GJ from November 1, 1986 to October 31, 1988.

2. the establishment of market funds as noted hereunder:

   (i) Customer Specific Discount Fund - provision for discounts to address the competitive market requirement of industrial customers including only Simplot Chemical Company Ltd. The value of the discount is to be determined by negotiation.

   (ii) ICG (Manitoba) Market Discount Fund - for the purposes of the maintenance of CMP discounts and the further offering of discounts to address the competitive market requirements of specific industrial and commercial customers not eligible under the Customer Specific Discount Fund. The total amount of the discount was identified to be $1.8M in each of the two (2) years. The Company proposed a specific rate schedule which will dictate the amount of the discount in relation to the volumes of gas used by each eligible customer.

As the administered Alberta Border Price was at $2.79/GJ prior to November 1, 1986, the maintenance of the base price at $2.79/GJ as proposed results in the consumer rates for the "core customers" remaining unchanged for the term of the Agreement.

This matter together with the investigation requested by the Minister of Consumer and Corporate Affairs is the subject of a public hearing scheduled for February 9, 1987.

From June 16 to 19, 1986 inclusive, the Board held public hearings in the City of Brandon to review the Company's application for an order determining rate base, rate of return and rates based on a test year for 1985.

A summary of the Company's application is as follows:

1. A 1985 mid-year Rate Base of $20,537,475, an increase of $1,238,842 from the presently allowed Rate Base of $19,298,633;

2. An overall Rate of Return on Rate Base of 13.59% , of which a return on equity of 14.25 is a part. The presently allowed overall Rate of Return on Rate Base is 12.85%, of which an allowed return on equity of 14.25% is a part;

3. The approval of a depreciation rate for compressor equipment to be used for supplying compressed natural gas to Company vehicles;

4. Revenue requirement of $69,490,180.

The Board, in Order No. 136/86 dated August 19, 1986 allowed a rate base of $20,491,077 which is slightly less than that requested of $20,537,475.

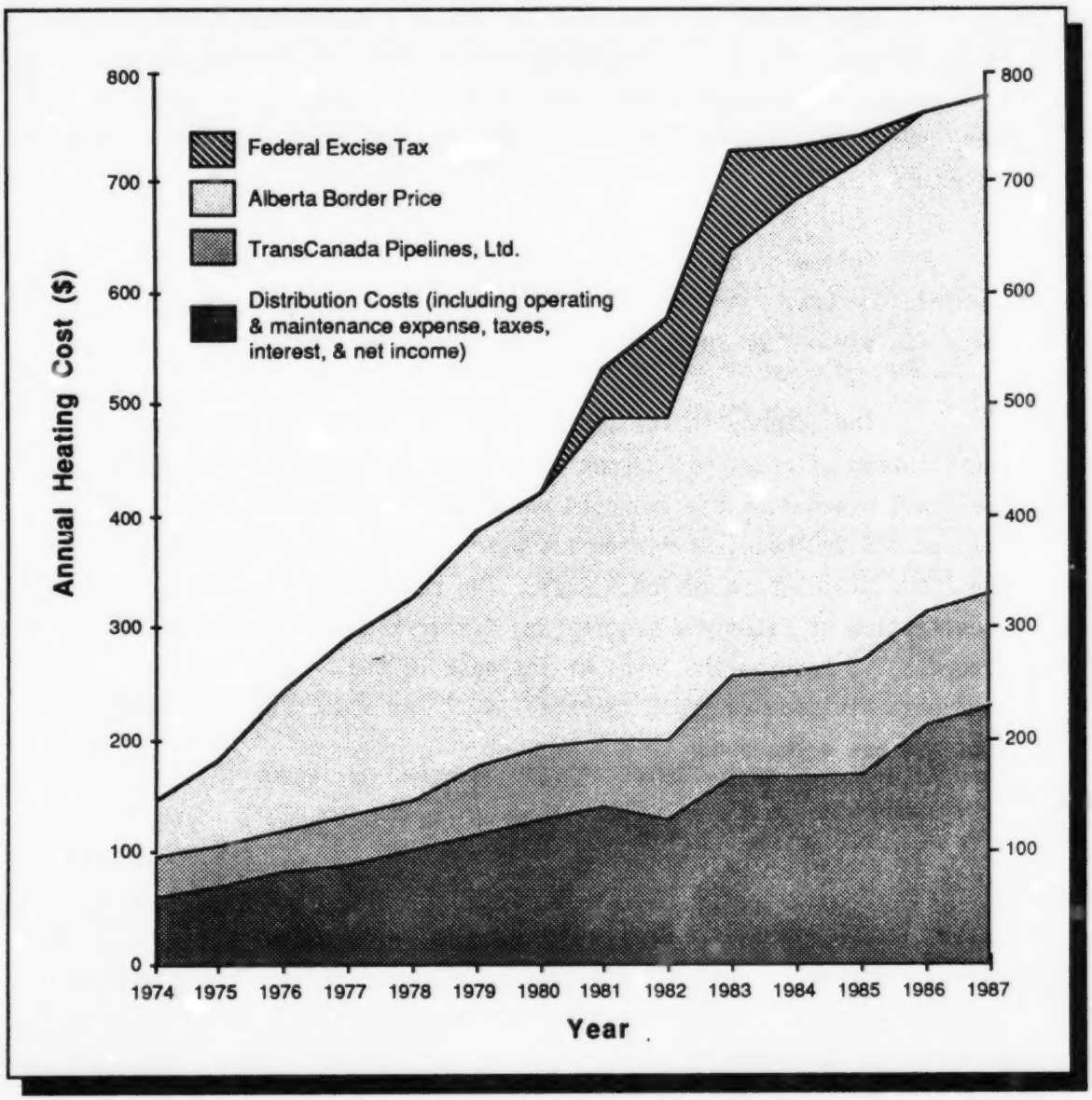
The Company, in its submission, noted that its overall rate of return on rate base for 1985 normalized for weather only was 6.41% which is under the 12.85% then allowed by the Board. In this application, the Company applied for an overall rate of return of 13.59% which included the continuance of a 14.25% return on equity.

After considering all the evidence, the Board approved an overall rate of return on rate base of 13.42% which included a decrease in the Company's requested return on equity to 13.75%.

The increase in the overall rate of return from 12.85% to 13.42% was principally related to the increase in the Company's average cost of long-term debt from 12.52% to 13.59%. This long-term debt makes up approximately 62% of this Company's capital structure.

Following certain adjustments made by the Board and the Company, the Board approved a revenue requirement of $69,404,097 of which $56,579,487 or approximately 82% is for the cost of gas.

The Company in its application applied to the Board for an equalization of rates throughout its franchised areas. In so doing, the Board noted that the proposed percentage increase for the Brandon and Southeast Divisions was approximately 10.5% whereas in the ICGUL Division it was only 2.2%. The Board felt that the equalization of rates was progressing faster than is reasonable and accordingly, reduced the level of increase in the Brandon and the Southeast Division to approximately 7.5%. The ICGUL Division rate increase was unchanged.

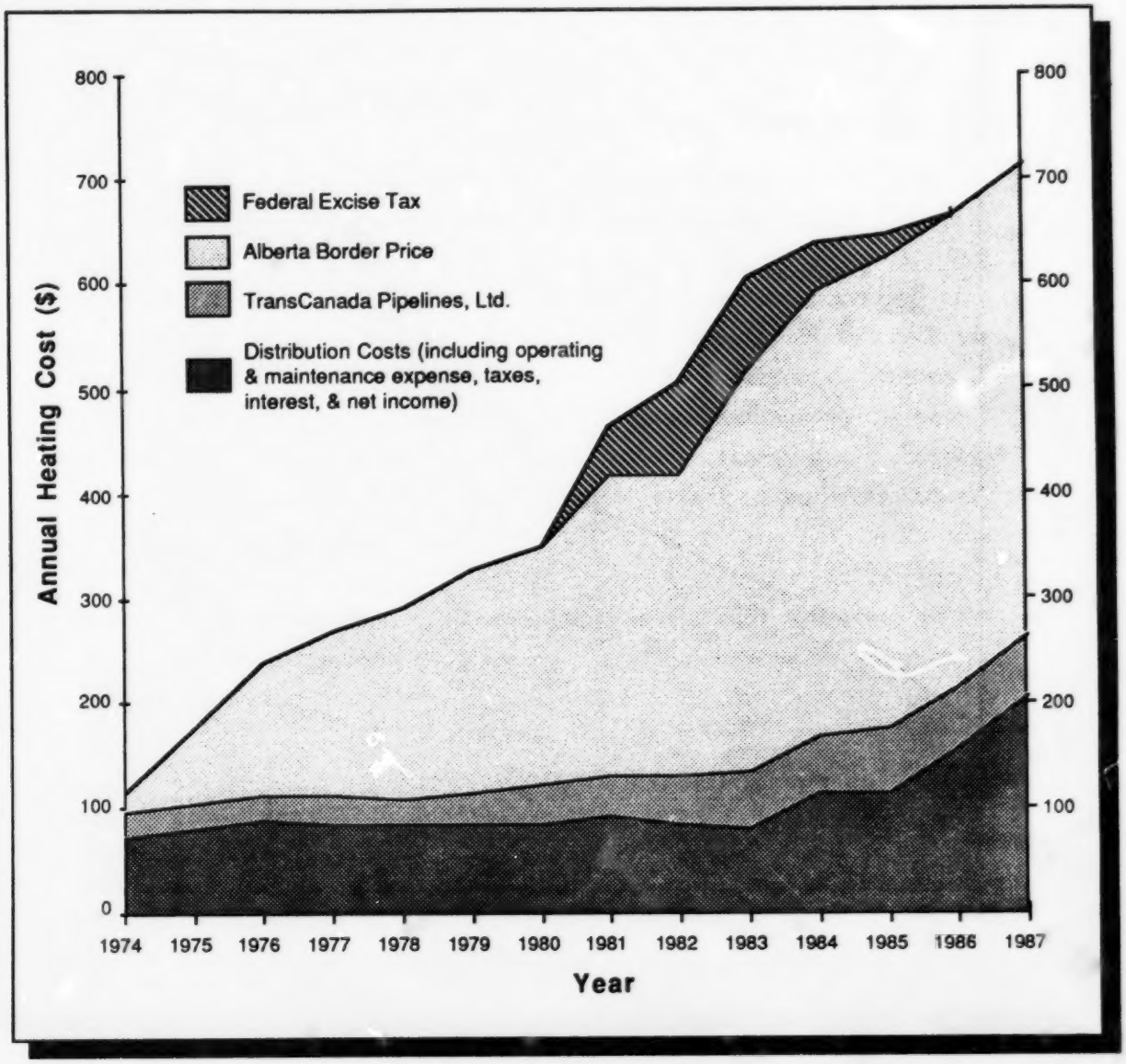


ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities (Manitoba) Ltd.
ICGUL Division

(Includes communities of Binscarth, Dauphin, Gilbert Plains, Grandview, Grunthal, Hamiota, Inglis, MacGregor, Miniota, Minnedosa, Mitchell, Neepawa, New Bothwell, Niverville, Otterburne, Portage la Prairie, Rivers, Roblin, Russell, Ste. Anne, Steinbach, St. Claude, St. Lazare, St. Pierre, and Virden)

Based on Usage of 150 mcf/year

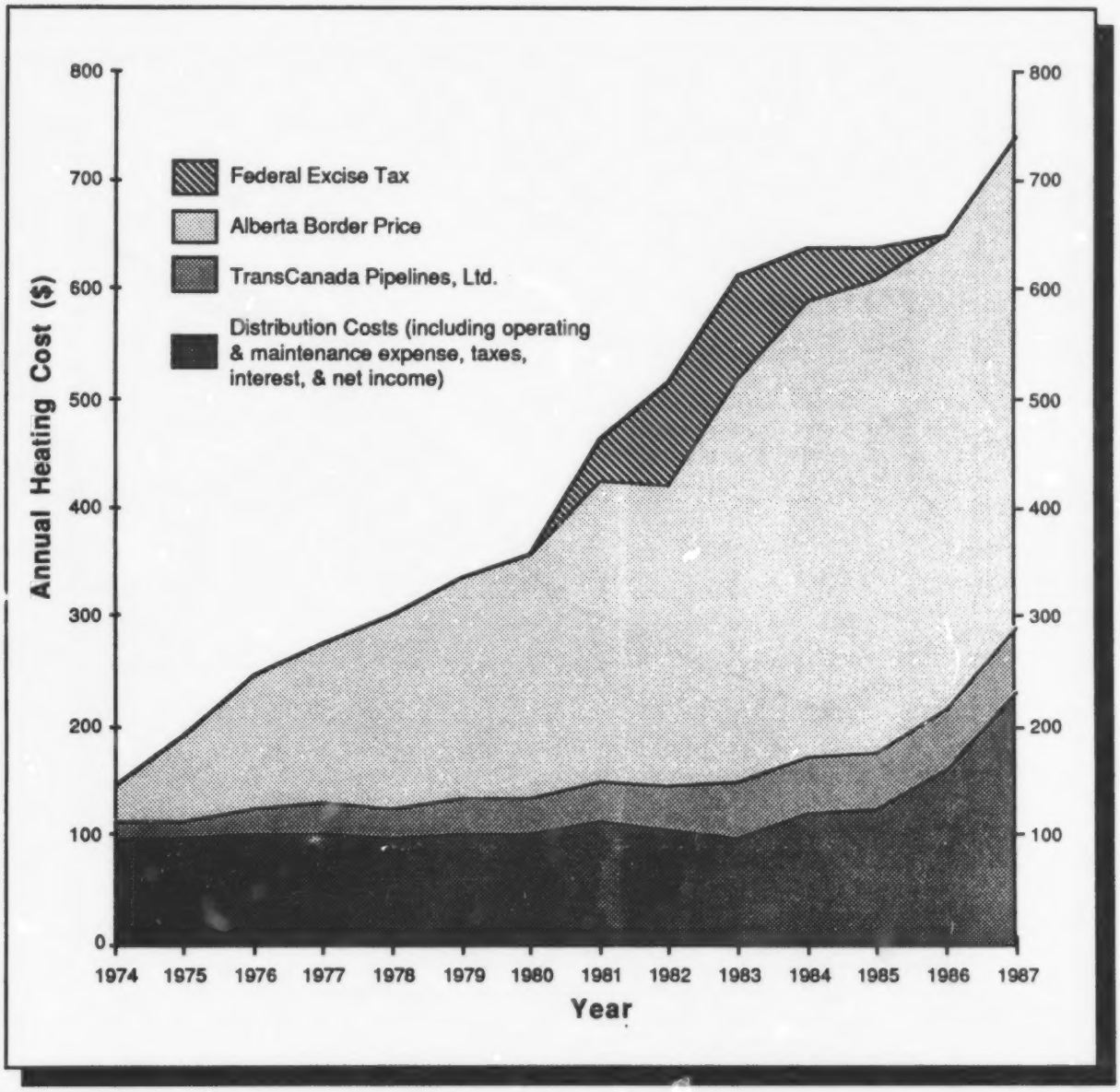


ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities (Manitoba) Ltd.
Brandon Division

(Includes Brandon, Forrest, R.M. of Cornwallis, R.M. of Elton, and R.M. of Odanah)

Based on Usage of 150 mcf/year



ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

ICG Utilities (Manitoba) Ltd.
Carberry/Southeast Division

(Includes communities of Altona, Carberry, Carman, Dominion City, Elm Creek, Emerson, Letellier, Morden, Morris, Plum Coulee, St. Jean, St. Joseph, and Winkler)

Based on Usage of 150 mcf/year

PROPANE GAS DISTRIBUTION UTILITY

STEELGAS UTILITIES OF MANITOBA LTD.

On June 3, 1986 the Board issued Interim Ex Parte Order No. 100/86 which granted approval effective June 1, 1986 to eliminate the $12.00 monthly customer service charge for all domestic customers. All other rates as established in Interim Ex Parte Order No. 99/85 would remain in force. This specific "rate" reduction was intended to encourage the retention of its customers. Steelgas Utilities of Manitoba Ltd. (the Company) noted that during the past year it had lost 83 customers to other forms of energy and a continued loss of customers would have a detrimental effect on both the Company and its other customers.

On December 16, 1986 the Board held a public hearing in the City of Thompson to hear the Company's application for an Order or Orders:

(a) Determining the rate base and rate of return for the test year ending July 31, 1986;

(b) Fixing just and reasonable rates for all residential and commercial gas consumers served by Steelgas Utilities of Manitoba Ltd.; and

(c) Confirmation of Interim Ex Parte Order Nos. 99/85 and 100/86.

In its application the Company requested approval of a rate base of $1,593,245 and no change in its allowed rate of return of 13.75%. The Company proposed a decrease in the rates by approximately 13% for residential customers (of which approximately 11.8% had been in effect since June 1, 1986), 11.5% for small commercial customers and 5.0% for optional commercial customers.

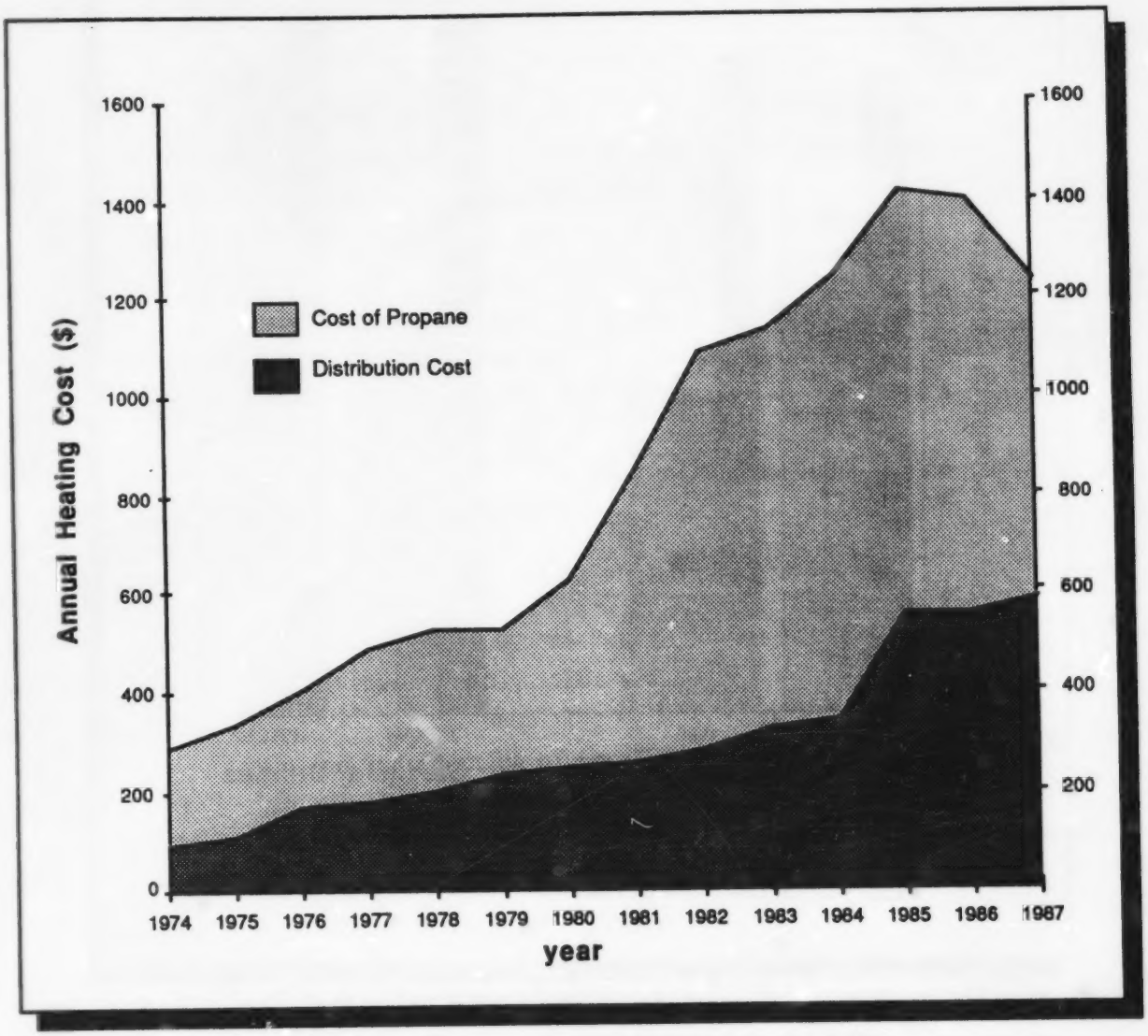
The major component of the Company's cost is the cost of propane. The proposed decrease in sales rates was due to a significant drop in the cost of propane. During the hearing the Company advised the Board that it changed its method of purchasing propane for the 1986/87 operating year. The Company proposed to purchase its propane requirements from Stittco Energy Limited, its parent Company, on a fixed price basis for the contract year. The Company provided evidence that it tendered, as it usually does, for its propane supply and rejected those tenders as the price was too high.

The Company selected the fixed propane price to maintain rate stability for its customers. In the Company's opinion, this is so important, for customer retention.

Other factors taken into account in the Company's application included rising insurance costs, provisions for income taxes, etc.

The decision of the Board with respect to this application was issued on January 16, 1987.

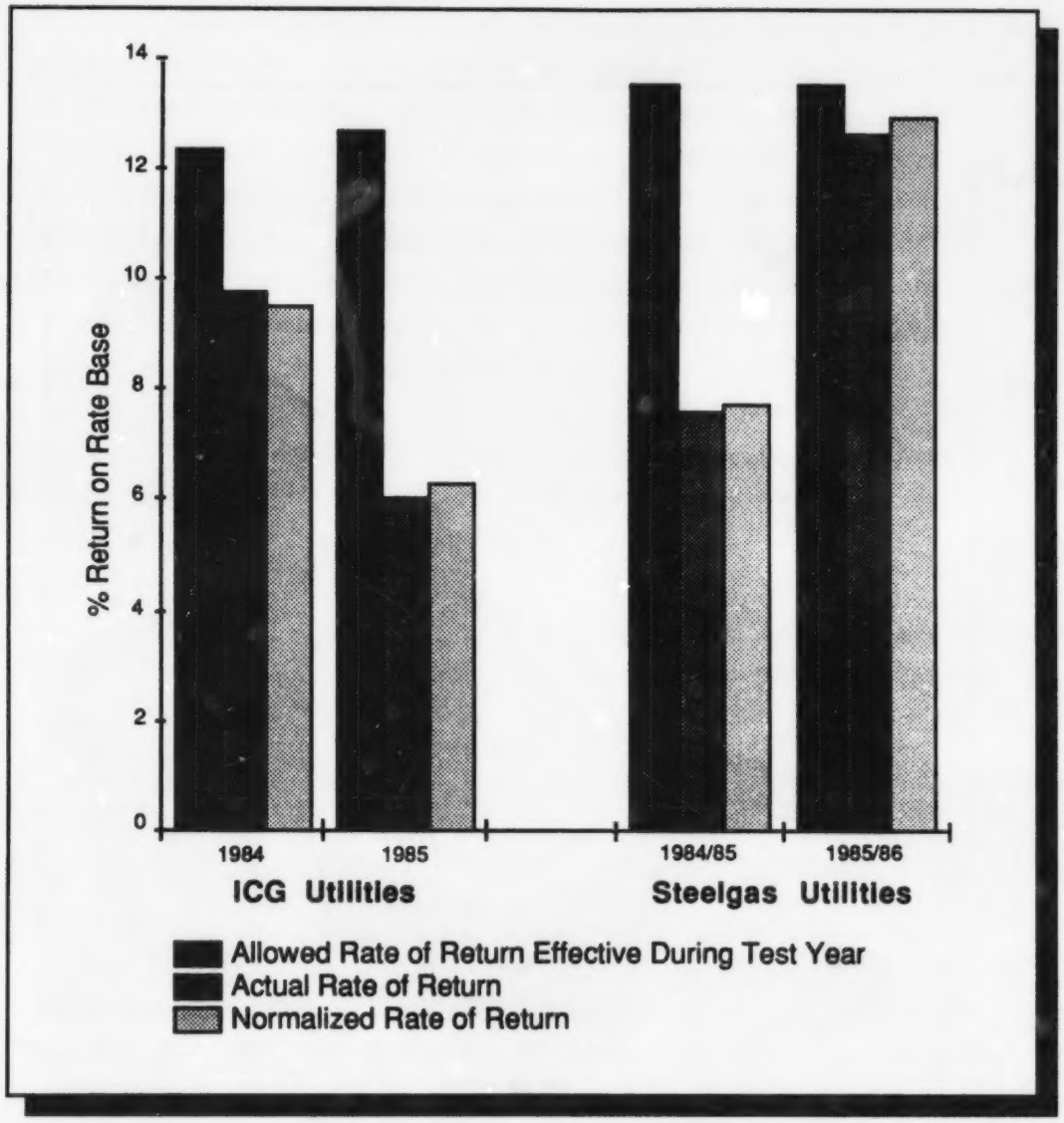
The Board noted from the evidence that the Company's financial position had improved favourably since the Company was last before the Board in 1984. The Board recognized the effort being made by the Company to retain its customers and to create a viable operating utility. It noted that during the 1985/86 test year the Company realized an actual rate of return of 12.83%, which, if normalized for weather equalled 13.17%. This is the highest return recorded since the Company was incorporated and the closest it has come to its allowed rate of return.



ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER

Steelgas Utilities of Manitoba, Ltd.

Based on Usage of 5100 litres per year



RATE OF RETURN ON RATE BASE
for
ICG Utilities (Manitoba) Ltd.
Steelgas Utilities of Manitoba, Ltd.

Note: Rate of return is the return earned or allowed to be earned by a utility calculated as a percentage of its Rate Base—i.e., investment in property, plant and equipment

MANITOBA TELEPHONE SYSTEM

During 1986 the Board issued 28 Orders relating to matters such as improvement of service, introduction of market trials and specific adjustments in the General Tariff of the Manitoba Telephone System (the System).

On February 3 - 7, 1986 inclusive, the Board held public hearing with respect to the application of the System for an Order or Orders for the approval of the following;

(a) A general rate review increasing the majority of the System's rates by approximately 3%;

(b) The confirmation or otherwise of 7 Interim Ex Parte Orders issued by the Board between October 3, 1985 and December 31, 1985; and

(c) The introduction of Local Gateway Service, a data communciation service trial.

The System indicated that its application addressed, in part, changes to the General Tariff, as follows:

1. A general rate increase of approximately 3% to all primary exchange services, PBX switchboards, key equipment, BCS services and Centrex services;

2. An increase of $0.01 per minute for Intra Message Toll service in rate steps 1 through 12; and

3. Rate increases of approximately 3% for most other services such as foreign exchange, mobile telephone service, local private line, Zone 1-800 service, and various service charges applicable to installation and relocation charges.

The System testified that the requested increase was consistent with increases in the Consumer Price Index, but that it did not allow the Sytem to meet its financial goals for debt ratio reduction and return on invested capital. The System stated that the requested increase would generate an additional $700,000 in revenues during the 1985/86 fiscal year and a further $5.5 million during 1986/87 fiscal year. In turn, the additional revenue will generate an increase of $900,000 in Telecom Canada Settlements revenue. Furthermore the proposed rates would reduce the projected deficit in net income from $7.21 million to $0.5 million for the 1986/87 fiscal year and result in a debt ratio of 83.9% and a debt coverage of 0.99.

The System also announced a three-year construction program of $466 million, $149 million of which was to be spent in the 1986/87 fiscal year. Exchange growth and change-over from analog to digital switching are some of the components of the program. The System is also embarking on a 10-year program of updating and upgrading the telecommunciations network in the City of Winnipeg, called "Action Winnipeg". The Board questioned whether enough of the capital resources of the System were being allocated to the improvement of the quality of service in the rural areas.

After hearing all the evidence the Board approved the increase in rates noting that the application fell short of providing satisfactory financial stability for the System. The Board amended the proposed rates for Intra Message Toll calling for rate steps 13 to 20. The Board ordered the System to apply the same one cent per minute increase to all rate steps and not only rate steps 1 through 12.

The Board heard several interventions from certain residential customers.

The Manitoba Society of Seniors and the Manitoba Anti-Poverty Orgainzation Inc. requested the Board to institute "lifeline" rates (*), to alter the System's security deposit policy and to allow the amortization of installation charges for low-income individuals.

This was the first time that the Board had been asked to consider the establishment of a subsidized or discounted rate class for utility service customers. To the Board's knowledge no such rate class or rating philosophy had been approved in any other jurisdiction in Canada, although it is in use in a few states in the United States.

The evidence put forth by the Intervenor about the importance of telephone service to all individuals was well taken and the Board expressed concern about those individuals who are unable to afford telephone service. However, the Board expressed some difficulty understanding why, if telephone service is deemed "an essential service", the various social agencies, municipal governments and provincial legislatures do not include it as part and parcel of their "market basket of goods" for financially disadvantaged people. Apparently, these agencies do not. The Board concluded that "there are many related social and legal issues that must be resolved before lifeline rates could be implemented and we believe that it would not be prudent to impose lifeline rates at this time."

(*) "Lifeline" rates may be descibed as follows:

> "...The major premise of those advocating lifeline rates is that low-income and elderly customers can no longer

pay for basic utility services and since such basic services are both essential and inelastic, they sould be provided at an affordable rate, even if that rate is below the cost of service."

Although the Board did not approve of "lifeline" rates at this time, the System was instructed to review its installation charge and security deposit policies.

An Ad Hoc Committee representing St. François Xavier Exchange raised several areas of perceived inequity for rural customers with regard to calling patterns, costing, single party line service, non-operator interrupted calls, non-discretionary calls and improved service.

After hearing the concerns of the above parties and noting that the System's rate structure and rating philosophy had not been examined by the Board since the System's appearance before the Board in 1975, the Board instructed the System to commission an independent examination of its rate structure and rate philosophy. This examination would include the matters of intra message toll calls in relation to distance sensitivity, costs of service, value of service, rural and urban calling patterns and "lifeline" rates.

On November 27, 1984 the System applied to the Board for an Interim Ex Parte Order for the introduction of Local Gateway Service (L.G.S.) (*) on a trial basis. Due to the unavailability of equipment the introduction of this trial was later postponed. At this hearing the System testified that L.G.S., which was designed to replace the Grassroots Project, will offer primarily residential and small businesses, a directory of information providers and data base services, descriptive information on the data bases, as well semi-automatic access to the data base services listed therein. Data bases within the province of Manitoba will be accessible through the L.G.S. In Order No. 57/86 dated March 27, 1986 the Board approved the System's application

(*) Local Gateway Service is a data communication

computer service which is capable of delivering value added information service, such as home banking, telecopying, bulletin board services, etc., in addition to Grassroots.

to introduce L.G.S. on a trial basis for one (1) year ending March, 1987.

On July 29, 1986 the System applied to the Board for an interim ex parte order approving changes to its security deposit policy and its installation charge policy as a result of its re-examination of the issues as recommended by the Board in Order No. 59/86.

With respect to security deposits, individuals requesting a new service and without an established credit rating with the System must pay a security deposit. Under the proposal, a security deposit will be requested only when there is a demonstrated risk associated with providing service to that customer. The change in policy is proposed to become effective April 1, 1987 with Board approval.

With respect to installation charges the System proposes to allow a customer to pay the charges over a three(3) month period at an administrative charge of $1.70. Currently, individuals are requested to pay the entire amount on the customer's first bill which in some instances could amount to $47.90.

Together these proposed changes will permit any Winnipeg individual with a good credit rating to subscribe for service with no "up-front" costs whereas previously a $50.00 security deposit was required. Furthermore, the customer's first monthly bill under the proposal would amount to $24.28 for a Winnipeg subscriber which includes the $7.75 basic service rate plus $16.53 which includes one third of the installation charge and administration fee (assuming maximum service charges applicable). Under the current tariff the customer's first monthly bill using the same assumptions would amount to $55.65.

With regard to the independent consultant's examination of the System's rate structure and rate philosophy, the Board was advised that such an examination would be carried out and on December 22, 1986 this report titled "Independent Rate Review of Manitoba Telephone System Rating Objective, Principles and Tariffs" was filed with the Board.

Furthermore, the System in a letter dated December 31, 1986, applied to the Board for an Order or Orders approving, in part, the following:

> "(a) A $0.90 per month increase on residence individual line local service rates in Winnipeg, and a $0.60 per month increase on residence individual line local service rates in all other rate groups.
>
> (b) A $2.20 increase on business individual line local service rates in Winnipeg, and a $0.95 per month increase in all other rate groups.
>
> (c) An average increase of 8.5% on service connection charges.
>
> (d) $0.20 per minute and $0.01 call set-up increase for intra-provincial toll calls."

The System in its letter of application indicated that without a rate adjustment, the System would lose approximately $16.4M in the 1987/88 fiscal year and that because of this the System is seeking an interim ex parte order from the Board approving the proposed rates as submitted effective April 1, 1987. If approved, the System indicated that the projected loss would result in a modest net revenue of $3.3M.

In a letter dated January 9, 1987 the Board denied the System's application for an interim ex parte order stating that:

"It is the intention of the Board to expedite matters leading up to the hearing in order that decision of the Board can be made as soon as possible."

The security deposit policy, the amortization of installation charges and the independent rate structure and rate philosophy review are all matters to be reviewed together with the System's General Tariff rate application scheduled to be heard in early 1987.

MANITOBA HYDRO

Pursuant to Section 39(4) of The Manitoba Hydro Act (Chapter H190) the Consumers Association of Canada (Manitoba) branch and the Manitoba Society of Seniors filed an application to the Board on May 29, 1986 and also on February 2, 1987, for a review of the price fixed or proposed to be fixed by Manitoba Hydro effective April 1, 1986 and April 1, 1987, respectively.

The applicants stated the Board's review should include the following:

> "(a) Are the rates reasonable in relation to the overall revenue requirement of the utility in the 1986-87 fiscal year?
>
> (b) In light of the commitment to Limestone first power in 1990 and the necessity to establish adequate reserves, are the rates sufficient for the financial well-being of the utility?
>
> (c) Is the burden of the revenue requirement fairly and equitably distributed among classes of customers, taking into account a proper allocation of the utility's cost and other considerations relevant to the establishment of a rate structure?
>
> (d) The object of the Manitoba Hydro Act includes the following: "to promote economy and efficiency in the generation, distribution, supply and use of power."
>
> (i) Do the rates as presently structured promote economy and efficiency, as required by the Act?
>
> (ii) What kind of rate revision should be considered to improve the economic and efficient supply and use of power in Manitoba?

(e) The Constitution Act 1982 contains a commitment to the equal benefit and protection of the law (Section 15) and to the universal provision of essential public services (Section 36(1)(c)). Given the disproportionate effect of utility rates on lower income customers, are there rate revisions which should be recommended to the Minister in order to enhance such social equity objectives?

(f) Such further matters as the Applicants may advise and the Board may wish to consider."

The Board held a meeting on November 6, 1986, with Manitoba Hydro and the Consumers Association of Canada (Manitoba) branch and the Manitoba Society of Seniors to establish the scope of the public hearing as prescribed by Section 39(5) of the Act and at the date of this writing, the scope has not been finalized.

THE MUNICIPAL ACT

WATER AND SEWER UTILITIES

There were a total of 98 Board Orders issued by the Board respecting applications filed with the Board by local municipal authorities, as set out below:

(i) 52 applications pursuant to Section 563 of The Municipal Act which requested approval and authorization for method of recovery pertaining to the following: 49 utility operating deficits for the year ending December 31, 1985 and 2 anticipated revenue deficits for 1986. There was 1 additional application for approval to vary the method of recovery of a revenue deficit earlier approved by the Board. In respect of the aforesaid 52 applications, Orders were issued authorizing same.

(ii) 32 applications for revisions, amendments to or establishment of rates were processed and Orders were issued authorizing same. Board guidelines which have been prepared and distributed to local authorities were applied wherever possible to assist them with their rate design and to ensure that sufficient revenue would be provided to cover normally anticipated expenses plus an adequate contingency allowance. Applications were handled by public hearing or Returnable Date Notice.

In all cases the municipalities and affected water and sewer customers were served appropriate notice.

(iii) 12 applications for establishment of utility reserve funds pursuant to Section 569 of The Municipal Act were processed and Orders issued to authorize the creation of the reserve funds.

(iv) 2 applications by The Rural Municipalities of Stanley and Rhineland for the sale of the Rhineland-Rosengart-Schoenweise Water Utility to Border Valley Water Co-op Ltd. were processed and Orders were issued authorizing same.

The Board authorized 23 requests by municipalities to make expenditures from their utility reserve funds established under Section 569 of The Municipal Act for miscellaneous purposes relating to the operations of the utilities.

The Board staff assisted applicant municipalities and others contemplating changes and seeking guidance in the preparation of their applications. Board staff met frequently with municipal representatives to ensure that applications were filed in the form prescribed by the Board, pursuant to statue. In most instances, these applications required the preparation of a rate study, and when necessary, public hearings were held in the applicant municipalities.

Note: The Board's general guidelines were introduced in 1977 to assist an applicant municipality in the preparation of an application and supporting rate study, for the approval of rate increases only, or for the establishment of utility rates.

THE HIGHWAYS PROTECTION ACT

Pursuant to Section 21 of The Highways Protection Act the Board issued 6 Orders respecting appeals of the decisions of The Highway Traffic Board. All of these applications dealt with control lines and off-site advertising signs located within a controlled area adjacent to a highway which is designated by regulation of The Highway Traffic Board as a Limited Access Highway.

The Orders dealt with 5 signs and one application for the removal of limited access control lines. Two of the six appeals were allowed, and four were dismissed.

A public hearing is held by the Board in response to each appeal application under The Highways Protection Act. In some instances hearings may be reconvened to permit further evidence to be presented to the Board and occasionally on-site inspections are required.

THE PREARRANGED FUNERAL SERVICES ACT

As administrator of The Prearranged Funeral Services Act, the Board is responsible for licensing companies selling prearranged funeral plans and for ensuring that the operations of these firms conform to statutory requirements.

In 1986, the Board issued 27 renewal licences. Twenty-two applications for revisions in fees for services, as well as 4 applications for contract revisions were approved.

The Board continued to review and monitor the annual reports filed by the licensees and their trustees in respect of the prearranged funeral plans being sold and the contracted funds maintained in trust.

THE CEMETERIES ACT

During the year the Board issued renewal licences for the operation of 10 cemeteries, 7 columbariums, 3 mausoleums and 5 crematories. Forty-six licences to sell cemetery services were issued either to owners or to their sales personnel. In addition, 8 applications, each for a revision in a schedule of fees for spaces, materials and services were authorized and 3 applications for revised sales contracts were authorized.

The Board continued to monitor the maintenance and passing of accounts by a Judge of the Court of Queen's Bench in respect of perpetual care funds collected and deposited in trust funds with authorized trustees pursuant to The Cemeteries Act.

The Board conducted a public hearing on September 4, 1986 on the subject of an application by Green Acres Memorial Gardens (1969) Ltd. (Green Acres) for the approval of a one-time charge to replace an "escalator clause" in the Company's preneed contract agreements dating between 1960 and 1975. This clause permitted the Company, at the time of need, to charge an extra fee equivalent to the increase in the wholesale cost of goods and services, exclusive of plot prices, since the signing of the contract.

This matter was originally dealt with by the Board in 1984 when after a meeting with Company officials, the Board ordered that Green Acres discontinue exercising the "escalator clause" as the contracts were never approved by the Board as required by statute and furthermore, this clause allowed Green Acres to vary prices without Board approval which was also contrary to the Act. The Board's decision was appealed to the Court of Appeal. The Court of Appeal instructed the Board to convene a new hearing to

allow Green Acres to endeavour to obtain from the Board the approval of a "once-in-a-lifetime charge". This was the subject of the Board's subsequent hearing.

Green Acres subsequently applied to the Board seeking approval for an extra charge which ranged from $58.00 to $1,071.40 per contract for a total amount of approximately $260,000.

After hearing all the evidence, the Board in Order No. 3/87, dated January 14, 1987 approved a "once-in-a-lifetime charge" reducing Green Acres total request to approximately $180,000. In its decision the Board deemed that a certain portion of the monies paid by the purchaser had been set aside (although no monies were set aside) and furthermore deemed that this money earned interest at rates comparable to the perpetual care fund over time. Contract holders were given one (1) year to pay the extra charge following which, carrying charges would be assessed.

REVENUE

Most costs incurred by the Board in carrying out its operations were substantially recoverable from the utilities and agencies under its jurisdiction or making application for its service. The 1986 revenue collected was as follows:

Public Utilities	$617,342.84
The Prearranged Funeral Services Act	675.00
The Cemeteries Act	5,731.00
The Highways Protection Act	325.00
Miscellaneous	1,804.48
	$625,878.32

This data covers actual receipts only for the period covered by this Report, ending December 31, 1986. Receipts after that date will be recorded for the subsequent year.